

## **SUBSTANTIVE CHANGE PROPOSAL**

### **Submitted to the Northwest Commission of Colleges and Universities for Change of Control of The Art Institute of Seattle**

**December 31, 2018**

#### **a. Mission and Core Themes**

- 1. clear statement of the nature and purposes of the change in the context of institutional mission and core themes.*

The mission of The Art Institute of Seattle (AI Seattle) is to provide career-driven, professional education programs. Degree programs prepare students to pursue careers in design, media, and culinary fields by focusing on the demands of professional practice. The programs incorporate curriculum in both core technical disciplines and liberal arts. AI Seattle is dedicated to holistic student development and providing a positive and supportive learning community. The institution fosters a campus culture of involvement and service with its constituencies, including its faculty, staff, students, and alumni, as well as the local arts, businesses, and academic communities.

AI Seattle interprets ‘mission fulfillment’ as evidence-based demonstration of successfully meeting key indicators of achievement of its core themes. AI Seattle has four core themes as follows:

- Core Theme #1: Career-driven Professional Education
- Core Theme #2: Liberal Arts Education
- Core Theme #3: Holistic Student Development
- Core Theme #4: Responsiveness to Constituencies

As the Commission is now aware, the Dream Center Foundation and Dream Center Educational Holdings (referred to collectively as “Dream” herein), which took control of AI Seattle in October 2017, is at risk of becoming financially insolvent and is now working with the United States Department of Education (USDE) to reorganize AI Seattle and the existing Art Institute campuses to preserve their ongoing operations. In order to allow AI Seattle to continue its important mission, the planned reorganization is designed to remove Dream and its principals and affiliates from any vestige of control over AI Seattle and preserves the institution as a non-profit entity governed by a Board of Trustees that is robust and independent.

The reorganization entails replacing Dream as the sole member of The Art Institute of Seattle, LLC (the entity which will continue to hold the assets of AI Seattle), with a different

non-profit entity, while the Board retains a majority of independent members.

The new member to replace Dream will be the Education Principle Foundation, a Section 501(c)(3) private foundation created in 2013 under the laws of the State of Delaware. As the new member, the Education Principle Foundation will not hold any ownership interest in the school entity. The new member will have the ability to nominate new members of the Board of Trustees for consideration and approval by the AI Seattle Board of Trustees. The Board of Trustees will remain entirely self-perpetuating under its bylaws.

Dream currently provides a wide range of centralized support services to AI Seattle. Certain of these services will be transitioned from Dream to a new servicing entity, Studio Enterprise Manager LLC (Studio), as of January 2, 2019, under a customary Managed Services Agreement. Certain other services currently provided by Dream, which are not amenable to immediate transition, such as IT, will continue to be provided by Dream through a Transition Services Agreement between Dream and Studio. In all cases, Studio will provide only non-core services to AI Seattle and all academic functions will continue to be controlled by the Campus Director and AI Seattle Board of Trustees. Studio's relationship with AI Seattle will be exclusively as a service-provider. Neither Studio nor any Studio principal, owner, or affiliate will have or exercise any ownership or control of AI Seattle.

The proposed transaction will provide financial stability for AI Seattle and The Art Institutes, which has been a challenge over the years under the former owner, Education Management Corporation (EDMC). The financial issues followed as part of the transaction when Dream took control of The Art Institutes and AI Seattle from EDMC last year. This change will allow the existing AI Seattle leadership, faculty, and staff to continue pursuit of the mission and core themes. The institutional strategic plan will not change, and the Board of Trustees will continue to exercise independent authority for the institution. Program offerings will continue without change to the faculty makeup, coursework, admission and graduation requirements, and commitment to the foundations of quality improvement. Notably, there is a clean and complete break for all of the acquired institutions from Dream upon the close of the transaction.

With the October 2017 change of control for AI Seattle, it was expected that the new non-profit status and management through the Dream Center entity would yield improvements to the financial and operational stability of AI Seattle and other Art Institute campuses. Unfortunately, based on the vast amount of debt that Dream inherited from EDMC, Dream has been challenged to stabilize the institutions and improve operational efficiencies. In the summer of 2018, Dream began looking to Studio as a potential service provider to help initiate better cost controls and operational efficiencies in alignment with the mission of the institutions, including AI Seattle.

Under the planned structure, Dream will be completely removed from any control of AI Seattle and The Art Institute campuses. The institutional assets will remain in the current LLC, with the Education Principle Foundation as its sole member. The existing leadership team will manage institutional operations, with guidance from the Board of Trustees. In addition, Studio will manage the non-academic functions of the institution, in collaboration

with the AI Seattle leadership team. Studio will assist in establishing operational improvements and efficiencies that will help AI Seattle regain its financial health.

For ease of reference, a summary of the material terms of the transaction are provided below:

#### Structure

- As noted above, the Education Principle Foundation, a 501 (c)(3) non-profit entity, will be the sole member of The Art Institute of Seattle, LLC, also a non-profit entity. The LLC will hold all of the assets of the institution.
- AI Seattle will continue to be managed by its current leadership team, with the guidance and input of its Board of Trustees.
- AI Seattle will enter into a Managed Services Agreement with Studio, effective January 2, 2019.

#### Consideration and Assumed Liabilities

- In order to assist Dream in preserving the operations of AI Seattle and The Art Institute campuses in the short term, Studio is providing a bridge loan, in conjunction with a group of lenders, in the amount of \$6.4M, which will be used across all continuously operating Dream institutions.
- The Education Principle Foundation is currently in discussion with USDE to limit liabilities associated with AI Seattle prior to the transaction. These are noted below in “Closing Conditions.”

#### Closing Conditions

- Because of the exigent circumstances surrounding the ongoing viability of Dream, the Education Principle Foundation is working with USDE to garner consent from all applicable regulatory agencies to continue approvals/accreditation while the change of control process is undertaken. While normally this process would have been completed prior to any transaction, it is clear that any delay will imperil the students and faculty of the Ai campuses and a precipitous closure would be imminent.
- As part of the agreement, USDE must agree to consider AI Seattle as a non-profit entity dating back to the Dream transaction date and AI Seattle will not be subject to USDE regulations that apply particularly to proprietary institutions (including the 90/10 Rule and Gainful Employment Rule), nor will AI Seattle be required to make further reports or disclosures regarding any degree programs or be subject to a second set of gainful employment rates on their degree programs when USDE issues such rates.
- AI Seattle will not be held liable for any federal regulatory compliance issues or liabilities arising prior to the transaction date. This includes compliance issues that may

be identified in A-133 audits prepared and filed under the new non-profit entities for prior periods. USDE will satisfy liabilities arising prior to the transaction date solely from and to the extent of such letters of credit (or related surety) previously posted.

- USDE must agree to limit any Letter of Credit (LOC) to less than existing such letters, and if additional LOCs are required, that they would be limited to less than the \$6.4M being provided in the bridge loan.

#### Employees and Trustees

- All employees of AI Seattle, including administration, staff, and faculty, will be maintained.
- Current members of the Board of Trustees who are affiliated with Dream will resign and be replaced by new trustees, appointed by the Education Principle Foundation. Other than this one aspect for the initial changes to the Board, the Foundation will have no additional governance role.
- A majority of Dream employees responsible for providing support (non-academic) services to AI Seattle (e.g., IT, human resources, financial aid processing) will be hired by Studio to provide the necessary infrastructure to continue to provide uninterrupted services to students after the close of the transaction.
- Centralized financial aid processing, student payment plan processing, and other existing centralized services will be provided by Studio.

#### Related Agreements

- The Education Principle Foundation is working with USDE and the Department of Justice to determine what elements of the Consent Judgment entered into between EDMC and 39 state attorneys general in November 2015 will continue to apply to AI Seattle. The Consent Judgment required certain disclosures and other operational changes intended to improve transparency and reduce the risk of confusion for students and prospective students, particularly regarding placement rates, cost, and other important consumer data.

#### **b. Authorization**

1. *evidence of the date of formal approval by the governing board and by the appropriate governmental agency to offer the proposed existing and/or new program(s) at the proposed site(s). If the institution is located in, or operates in, a state that has only minimal requirements for chartering, but also a higher level of authorization to grant degrees, date and evidence of approval at the higher level is required.*

On November 5, 2018, the AI Seattle Board of Trustees adopted the resolution approving a Bundled Services Agreement with Studio. The approved resolution included

acknowledgement of a framework agreement outlining an option for future potential change of control. Subsequently, on December 31, 2018, the AI Seattle Board of Trustees convened and approved the resolution for a change of control.

Upon approval from NWCCU and other applicable agencies, it is anticipated that the change of control will be effective on or around January 2, 2018. All required notifications, applications, and/or other legal documents will be submitted to each applicable external agency. The required approvals and anticipated submission dates are as follows:

- USDE – Studio has been working closely with USDE over the past few weeks to establish a plan to effectuate a reorganization plan. An updated E-App to USDE will be submitted as soon as notification of conditional approval and continued accreditation is received from NWCCU. Submission will occur no later than 10 days following the effectuation of the change of control.
- Washington Student Achievement Council (WSAC) – Diane Jones, USDE Undersecretary, notified WSAC via phone call on December 27, 2018, of the USDE request that WSAC continue approval of AI Seattle while the reorganization is underway. As of December 31, 2018, no feedback regarding their position has been received. Studio is prepared to submit a change of control application to WSAC as soon as notification of any special requirements (based on the exigent situation) is received.
- Washington Workforce Training & Education Board – Notification will be submitted immediately post-close of the transaction.
- American Culinary Federation (ACF) – Notification will be submitted immediately post-close of the transaction.
- Council for Interior Design Accreditation (CIDA) – Notification will be submitted immediately post-close of the transaction.

**c. Educational Offerings**

1. *descriptive information of the educational offering(s) including credits to completion, courses by title and assigned academic credit granted;*

Number of Quarter Credits – AI Seattle is approved to offer a variety of academic programs. The number of credit hours vary based on degree level and educational program. A listing of programs and required credit hours is provided as Attachment 1.

At this time, there are no plans to implement new programs or modify existing program offerings as a result of the change of control. Future planning efforts will stem from a comprehensive review of current programs, formulation of a strategic vision for new programs, and identification of the resources needed to support any new or expanded offerings. Moving forward following approval of the change of control, all substantive changes and/or program expansion will evolve from institutional planning and budgeting

processes, in which Studio will participate. As is current practice, faculty will develop new programs in conjunction with subject matter experts and new program proposals will pass through the established internal approval process, which requires input from both faculty and administration before seeking approval from the AI Seattle Board of Trustees and NWCCU.

Number of Semester Credits – N/A

2. *descriptive information regarding method of instructional delivery (i.e., type of delivery including percent of face-to-face, hybrid, distance delivery, and/or competency-based);*

AI Seattle offers courses via two delivery modes, which are on ground and blended. On ground courses are offered at two locations in downtown Seattle. The Main Building is located at 2323 Elliott Avenue Seattle, WA 98121-1622 and the Culinary Building is currently located at 2601 Elliott Avenue Seattle, WA 98121-1622. However, as a result of the change of control, all fashion and culinary lecture only courses that are currently offered at 2601 Elliott Avenue will be transferred to the Main Building and the culinary lab courses will relocate to 360 Corporate Drive North, Tukwila, WA 98188, which is 14.2 miles from the current location. This change is necessary due to a decision of the landlord at 2601 Elliott Avenue not to renew the building lease.

All online courses are offered through a consortium agreement with The Art Institute of Pittsburgh (AI Pittsburgh). A copy of the consortium agreement (previously provided to NWCCU) remains intact with no changes to the agreement. Importantly, all required courses for all AI Seattle programs are offered on ground. Thus, if at any time, AI Pittsburgh should not be able to offer online courses, AI Seattle has sufficient faculty and resources to teach all required coursework. In addition, due to the nature of the courses and content, most program-specific requirements at AI Seattle are, and will continue to be, offered only on ground. No courses required for degree completion are offered solely in the online modality.

Online classes are offered as an option for students who desire greater flexibility in their schedule. Currently, only 10% of all AI Seattle registered credits are provided through the AI Pittsburgh consortium agreement (i.e., online). As a result of the small percentage and AI Seattle's ability to teach all registered credits on ground using existing faculty, any impact to AI Pittsburgh's accreditation status would be minimal to AI Seattle. Currently, all active students have on ground course options based on their financial plan. All online registered credits are at the election of the student.

AI Seattle is actively seeking four full-time faculty in media and design, who hold terminal degrees in their respective fields. Once these faculty positions are hired, students will be exposed to a greater diversity of faculty in programs with adequate student cohorts to support the need for more course sections each quarter.

3. *description of expected student learning outcomes;*

All program offerings and expected student learning outcomes, as previously approved by NWCCU, are listed in the AI Seattle 2017-2018 Academic Catalog, which is provided as

This transaction is the best way to protect students, alumni, and faculty while also addressing the concerns of NWCCU. As an independent institution, AI Seattle plans to continue pursuit of the mission and core themes of AI Seattle. AI Seattle will be operated and controlled by the Campus Director and leadership team with oversight and guidance from the Board of Trustees. The leadership team will continue to be responsible for the day-to-day operations, strategic planning, and compliance with accreditation and other applicable standards for the institutions. Non-academic functions will be managed through a Managed Services Agreement with Studio working closely with the Campus Director. The new member foundation of AI Seattle (i.e., the Education Principle Foundation) will be installed within days of this submission, in conjunction with the closing of the transaction.

The student population to be served will remain the same subsequent to the transaction. AI Seattle does not intend to change recruitment plans or targets. Given that the programs, mission, courses, faculty, services, and location are not changing as a result of the transaction, and that no programs are currently contemplated to be modified, eliminated, or taught-out within the next 12 months, there is no reason for students to be required to transfer. To the extent any programs are determined to need modification, elimination, or taught-out, or should students want to transfer, the staff will support those students as they are supported now with respect to transfer of credit, academic advising, financial aid services, and/or continued offering of the program until such time as all currently enrolled students graduate, transfer, or drop.

2. *procedures used in arriving at the decision to change;*

The procedures used in arriving at the change of control are described in section A of this Substantive Change Proposal. The Art Institutes System had been pursuing strategic opportunities for AI Seattle (and other Dream institutions) in order to find a viable, appropriate non-profit entity that would continue the institutions for the benefit of the students, faculty, and staff. In May 2018, The Art Institutes System connected with Studio for the purpose of establishing a Bundled Services Agreement in hopes that a new approach to the management of The Art Institutes System could yield cost savings and improve the financial health and stability of the institutions. Through that process, Studio introduced Dream to a new opportunity to transfer the membership interest in The Art Institute campuses to the Education Principle Foundation. What emerged from those conversations was a strategic opportunity for The Art Institutes, through a stand-alone non-profit corporation, to continue operating as independent institutions without Dream's involvement.

3. *organizational arrangements required within the institution to accommodate the change including administrative, staff, and faculty hires, facilities, student services, library; and*

Notwithstanding the change of control, organizational operations at AI Seattle will not change as a result of the change of control. As previously reported to NWCCU, AI Seattle and its Board of Trustees approved the consummation of a Bundled Services Agreement with

## Attachment 2.

With the change of control, AI Seattle does not expect to modify student learning outcomes or available student services. However, with the approved change of control, additional resources will be invested to support the achievement of student learning outcomes. Specifically, students will be paired with qualified mentors that will provide career guidance through the life cycle of an academic program rather than at the time of graduation. In addition, AI Seattle will pursue formal relationships with industry partners for the purpose of ensuring the alignment of curricula with industry needs, providing additional internship/mentoring opportunities to students, and facilitating employment of AI Seattle graduates.

### 4. *description of the assessment plan for student learning outcomes;*

Faculty members will continue to lead the assessment of student learning. Assessment practices include evaluations of assignments, portfolios, and projects using faculty-developed rubrics that articulate evaluation criteria, as well as quizzes and exams. Critical thinking and soft skills are assessed through written and oral assignments that evaluate students' ability to effectively communicate proposed design solutions to target audiences. Data are also aggregated to the program level and used by the faculty to evaluate program effectiveness.

### 5. *evidence of review by the appropriate academic policy body of the institution- upload minutes of minutes or other evidence using Jotform. List the date of academic policy body review*

On December 31, 2018, the AI Seattle Board of Trustees adopted a resolution approving the change of control. The resolution and board approval are provided as Attachment 3. Because this change of control is occurring at the parent level, faculty were not involved in the transaction. Moving forward, every effort will be made to hold town halls and open forums to ensure faculty, staff, and students remain updated and informed of matters pertaining to the change of control and relationship with Studio.

## d. **Planning**

### 1. *plans and descriptive materials indicating evidence of need for the change and the student clientele to be served (common resources include EMSI and the BLS Handbook);*

The need for this transaction arose because Dream, which took control of AI Seattle in October 2017, is at risk of becoming financially insolvent and is now working with USDE to reorganize the existing Art Institute campuses to preserve their ongoing operations. The planned reorganization described in this Substantive Change Proposal is designed to remove Dream and its principals and affiliates from any vestige of control over AI Seattle and to preserve the institution as a non-profit entity governed by a Board of Trustees that is robust and independent. As an independent institution, AI Seattle will continue its investments in technology, faculty, and other critical resources to maintain compliance with NWCCU standards.



Studio. That agreement allows Studio to provide non-academic functions and services to AI Seattle. The functions and services provided by Studio will replace services currently provided under the Dream structure. As part of the larger reorganization, the Bundled Services Agreement has been amended and is now referred to as a Master Services Agreement. However, the services included in the Master Services Agreement are identical to those in the original Bundled Services Agreement.

All current employees of the institution will be maintained. The administrative staff, under the leadership of the Campus Director, Lindsey Morgan Oliger, will remain intact following the change of control.

AI Seattle will continue to be governed by an independent Board of Trustees. The Board of Trustees will be entirely self-perpetuating under an amended and approved set of bylaws. The Board of Trustees will remain responsible for periodically reviewing and updating the institutional mission, adopting policies and procedures to achieve the mission, ensuring budget and financial control, establishing broad institutional policies, securing financial resources to adequately support the mission of the institution, and selecting and evaluating the Campus Director.

4. *timetable for implementation.*

The closing date for the change of control is subject to the receipt of all necessary regulatory approvals. The following milestones for this change of control have already occurred:

- On November 5, 2018, the AI Seattle Board of Trustees adopted the resolution approving a Bundled Services Agreement with Studio. The approved resolution included acknowledgement of a potential change of control.
- Throughout December 2018, Studio met with USDE regarding the change of control to emphasize the commitment to providing continued uninterrupted operations and additional financial supporting for AI Seattle.
- On December 28, 2018, USDE provided notification to NWCCU and WSAC regarding the unusual changes proposed for AI Seattle.
- On December 31, 2018, the AI Seattle Board of Trustees convened and approved the resolution for a change of control.

e. **Student Services: capacity of student services to accommodate the change; and implications of the change for services to the rest of the student body;**

As a result of the transition, AI Seattle is entering into a Master Services Agreement with Studio to provide non-academic services. As the agreement occurs at the shared/centralized services level, students will be unlikely to notice any difference in any provided support services.

AI Seattle provides a wide array of support services that enhance the academic programs. All services are detailed in the AI Seattle Student Handbook, which is provided as Attachment 4. All services will continue to be provided following the change of control, with the same staff and resources (subject only to ordinary course changes, such as voluntary terminations, that would have occurred in the absence of the transaction). Tutoring and related academic support will continue to be available at AI Seattle. Academic advising will continue to be handled by the same qualified personnel, including on-ground advisors and the faculty. Although roles will remain flexible to meet student needs, on-ground advisors will continue to pay particular attention to new students and faculty will continue to focus on students who are nearing graduation. The student services team will continue to supplement and support achievement of student learning outcomes by providing assistance and services in the areas of student activities, tutoring, student organizations, and career services.

AI Seattle will continue to be dedicated to helping students achieve academic, professional, and personal goals. The entire institution will continue to encourage students to participate in activities that stimulate cultural awareness, creativity, and both social and professional development. Neither staff nor the quality of student support will change as a result of the change of control. Following implementation of the change of control, non-student-facing support (e.g., financial aid processing, IT help desk, etc.) will be provided through a centralized services structure under Studio.

All academic functions will continue to be managed by the institution with appropriate approval of the Board of Trustees.

**f. Physical Facilities and Equipment: provision for physical facilities and equipment;**

The change of control will not alter the institutional mission, program offerings, coursework, faculty, staff, or equipment. However, relocation of the culinary lab courses programs will occur. The culinary lab courses are currently delivered at 2601 Elliott Avenue. The culinary lab is scheduled to relocate to 360 Corporate Drive North on or before January 7, 2019.

**g. Library and Information Resources: adequacy and availability of library and information resources;**

There are no planned or necessary changes to the library or information literacy resources as a result of the change of control. The library will continue to offer print, media, and online collections tailored to support students' curricular needs while stimulating other interests. Additionally, the library will continue to provide access to an extensive collection of online subscription resources, including several research databases, multimedia libraries, software-training tutorials, and other program-specific resources, such as business and fashion databases as previously reported to NWCCU. Online resources will continue to be accessible via password authentication and/or through the student portal.

**h. Faculty: analysis of the faculty and staff needed which includes educational and professional experience qualifications of the faculty members relative to their individual teaching assignments; and anticipated sources or plans to secure qualified faculty and**

**staff.**

AI Seattle has experienced and qualified faculty that includes both full-time and part-time faculty. As of Fall 2018, 84 part-time faculty and three full-time faculty serve AI Seattle. Four full-time faculty positions are currently posted for hire. The full-time equivalency (FTE) for faculty is 35. The Fall 2018 student enrollment was recorded at 633 with an FTE of .271. The student-to-faculty ratio is 13-to-1. There are no plans to change the number of faculty following the change of control. Faculty are neither tenured nor unionized. Employment agreements will be amended, as needed, to reflect any new terminology.

- i. Download the NWCCU budget worksheet using Jotform. Enter the budget information related to this proposal. Save the worksheet. Upload the completed worksheet using Jotform**

The budget worksheet is provided as Attachment 5.

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